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Urban Poverty in Pakistan

APPROVED BY
SUPERVISING COMMITTEE:

Supervisor:

Jennifer Bussell

Co-Supervisor:

Patrick Wong

Urban Poverty in Pakistan

by

Syed Hashim Zaidi, B.S.

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Dedication

This report is dedicated to my parents. Without their understanding, guidance, patience, and support, this report would not have been possible. They have always believed in me and supported me throughout my life. I am truly fortunate to have been blessed with such loving parents.

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Abstract

Urban Poverty in Pakistan

Syed Hashim Zaidi, M.P.Aff.

The University of Texas at Austin, 2011

Supervisor: Jennifer Bussell

Co-Supervisor: Patrick Wong

This report analyzes the spatial shift occurring in the nature of poverty in Pakistan. Given the rapid urban growth in Pakistan, poor families residing in cities are confronted with limited employment opportunities, poor living conditions, minimal access to services, and face environmental and health risks. Macroeconomic factors such as slow economic growth, Structural Adjustment Programs, food inflation, low job creation rate and housing crisis have all contributed to the rise in urban poverty. The weak local government structure and a lack of community involvement in governance decisions have only worsened the situation. With a burgeoning urban population, it is imperative that the government introduces a holistic pro-poor development package that focuses on interventions in the education, labor and housing markets across Pakistan.

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Chapter 1: Introduction

The twentieth century has seen a push around the world towards rapid urbanization. Cities have been growing at a swift rate. The world's population doubled from 3 billion in 1960 to 6 billion in 2002 and at the same time people living in urban areas increased from 1 billion to 3 billion (Satterthwaite, 2002). In 2007, it was the first time in history that the overall urban and rural populations were equal across the world (Baker & Reichardt, 2007). Rapid urban growth has been credited with higher income levels. Urban growth is thought to have created more employment opportunities, improved living standards and provided improved access to social services. Urbanization has particularly helped developing countries in changing their agrarian economic base into a modern industrialized one.

Countries with the highest rates of urbanization are some of the most prosperous countries today including the likes of United States, United Kingdom and Norway. Many urban economists believe that there is a direct association between urbanization and per capita GDP growth since developed countries are also the most urbanized countries (Glaeser, 2011). An association between urbanization and GDP per capita growth shows that a ten percent increase in urbanization on average leads to a thirty percent increase in a country's per capita output (Glaeser, 2011). In the past fifty years, developed countries have urbanized the fastest and maintained a high economic growth rate (Satterthwaite, 2002). However, most of these countries are developed countries and the evidence for developing countries has been mixed at best.

Urban growth in developing countries has been riddled with poor planning and mismanagement. Considering that developing countries will be the main drivers of urban growth in the future, it is important to understand their dynamics of urban growth.

Developing countries do not necessarily have the resources that are required to build the infrastructure and to set up institutions that would provide the required social services to the ever-increasing urban population. Urban growth could be considered to be a contributing factor to higher income levels; however, this report argues that it would be a stretch to make the claim that it is the sole or primary factor responsible for higher income.

There are a myriad of factors that affect national income including literacy levels, strength of institutions, governance practices and nature of the economic base. Countries that have both high urbanization and income growth rates usually tend to also have better institutional quality, higher literacy levels and a more diversified economy. Nonetheless urban growth is definitely a contributing factor to income growth. Latin American countries including Argentina, Peru, Bolivia and Chile have some of the highest urbanization rates in the world, and yet their income growth has been slow. A majority of Asian and African countries have achieved significant urbanization rates but their income growth rates have not kept pace. It is therefore critical to understand that urbanization does not necessarily lead to higher income growth.

The purpose of this report is to use Pakistan as a case study to analyze the factors responsible for the rapidly increasing urban poverty levels in developing countries. It will also include a discussion of the current living conditions of the urban poor and recommend policy interventions that are needed to control the sharp increase in urban poverty.

URBANIZATION IN THE DEVELOPING WORLD

In the latter half of the twentieth century, post-colonial societies were encouraged to urbanize as a remedy to tackling rampant rural poverty. Developing countries adopted

this path and governments have made a concerted effort to encourage urbanization. Urban growth levels reached unprecedented levels but so did urban poverty. Urban poor had limited opportunities to work, lived in poor living conditions and did not have access to social services that these cities had to offer. Urban poor largely comprises of migrant populations, former rural poor and laborers working in the informal economy. Most of these people moved to urban areas since it promised higher wages and a better standard of living. However, only a select few were able to enjoy those amenities and the rest were forced to make ends meet under trying conditions. Job growth and provision of services to urban residents has been poor. Urban populations have been confronted with multiple environmental and health risks. It has been hard to find good quality affordable housing and living conditions have been appalling at best in a majority of low income neighborhoods.

Rapid urbanization policies have had mixed results in developing countries. Both Albania and Georgia had over 40 percent of their population living in urban areas. Yet their annual average GDP growth rate was extremely low. In Georgia's case, its annual average growth was negative 0.3 percent throughout 1990s even though it had over half their population living in cities. In the case of Honduras and Kenya, rapid urbanization led to economies growing at around 5 percent but the population living below dollar-a-day in cities was significant. Despite Honduran economic growth of 4.9 percent, over half the population living in cities was poor. Income growth is just one of the many economic indicators that are vital to a developing country. A key indicator of welfare and growth especially for developing countries is also the percentage of urban population living below dollar-a-day. Even if urbanization led to higher income levels, inequitable growth patterns would only increase income inequalities and push the population nearer towards the poverty line.

Table 1: Urban growth in developing countries

Country	Population (Millions)	Urban Population (%)	Urban population below dollar-a-day (%)	Annual avg. growth rate 1990-2003	GDP per capita (PPI)
Albania	3.2 (2001)	43.8 (2001)	19.8 (2002)	1.3%	\$ 4,900
Georgia	5.1 (2003)	52 (2003)	12.1 (1997)	-0.3 %	\$ 3,100
Honduras	7.0 (2001)	45.6 (2001)	57.0 (1993)	4.9 %	\$ 2,800
Kenya	32.4 (2004)	33.4 (2004)	29.0 (1994)	5.6 %	\$ 1,022
Pakistan	148.4 (2003)	34 (2003)	24.2 (1998)	3.3 %	\$ 2,200

Source: Baker & Reichardt, 2007

Poverty is still predominantly considered to be a rural phenomenon across the developing world. However, the increased push towards urbanization is going to change that existing scenario across most of the developing world. It is not to say that countries should halt their urbanization efforts; however, it is important that they should urbanize in a more planned and systematic manner with special focus paid to the concerns of the ever-increasing urban poor.

EVOLUTION OF URBAN POVERTY IN PAKISTAN

Similar to other developing countries, Pakistan has also pursued an active urbanization policy after its independence in 1947. Pakistan's urban growth rate has by no means been the fastest in the world but it is still the second highest in South Asia behind India. The total percentage of urban population living in Pakistan is hovering around 35 percent much lower than the likes of Latin American countries that have urbanized at over 80 percent. Pakistan's economic performance has been fluctuating and has been on the decline in the past two decades compared to 1980s. However, urbanization rates have been gradually increasing and it is expected that by 2030 the population living in rural and urban areas would be equal.

Table 2: Urban growth in Pakistan

	1960-1970	1970-1980	1980-1990	1990-2000	2000-2009
Real GDP growth (%)	6.81	4.71	6.50	3.75	4.90
Rural population (%)	77.48 (1961)	74.59 (1972)	71.70 (1981)	67.48 (1998)	-
Urban population (%)	22.52 (1961)	25.41 (1972)	28.30 (1981)	32.52 (1998)	-
Urban poverty (%)	-	-	19.10 (1987)	24.20 (1998)	30.10 (2002)

Source: Economic Survey of Pakistan; Pakistan population census; Jamal, 2005.

The Government of Pakistan defines “national poverty line on the basis of 2,350 calories per adult equivalent per day at Rs 748.57 per capita per month at the prices of 2000-01 and minimum non-food requirements” (The Planning Commission of Pakistan, 2003). The government does not differentiate between urban or rural poverty and has the same poverty line for both areas. Pakistan’s urban population in 2009 was over 62 million people – almost twice its size since 1990 (Arif & Hamid, 2009). Over 35 percent of Pakistan’s population lived in urban areas in 2009 compared to only 17 percent in 1951. Urban growth rates have outstripped rural growth rates over the past three decades in Pakistan with the percentage of population living in cities increasing at an average annual rate of 4.13 percent as opposed to annual rural growth rate of 2.71 percent (Haider & Haider, 2006). At the same time both rural and urban poverty rates have remained high. Urban poverty in Pakistan has increased from 19.1 percent in 1987-88 to 30.10 percent in 2002. During the same time period, rural poverty rates saw a slight decline from 36.9 percent in 1991-92 to 33.8 percent in 1998-99 but since then have increased to 39.26 percent in 2002 (Cheema, 2005).

Urban poverty levels have historically been low in Pakistan but they have been progressively increasing since early 1980s. The increase in urban poverty is partly due to internal migration that has seen rural poor relocating to urban areas to find jobs and improve their living standard. Pakistani government has pursued an active industrialization policy that has provided credit, tax incentives and import duty waivers to the manufacturing sector. The manufacturing sector has primarily been located in cities or new cities have been built around those industries. The rapid growth of manufacturing and services sector has attracted workers from rural areas. In most cases, these rural workers did not have the desired skill set needed to take up those manufacturing and service sector jobs. Most of these rural workers have either ended up working in the informal economy or have taken up a low-paid job such as a watchman making it difficult for them to make ends meet.

Poverty levels in smaller cities are generally much lower as they do not attract the majority of rural migrants. However, poverty levels in major cities such as Karachi are estimated to be as high as 50 percent (Hasan, 2008). And the fact that by 2030 half of the Pakistani population will be residing in urban areas raises serious concerns about the future of urban poverty in Pakistan. Rapid urbanization in Pakistan has brought along with it a wide variety of issues including urban poverty, high unemployment, poor living conditions, acute service shortages and high crime rates.

Pakistani governments have been ineffective in keeping poverty levels low. With the rise in urban poverty, government faces a new challenge since urban poverty has certain different characteristics than rural poverty. Urban poor face challenges in finding affordable housing, meeting their daily caloric food requirements, gaining access to social amenities and need more cash reserve to do market transactions. On the other hand, rural poor face exploitation at the hands of landowners and live in areas with minimal

infrastructure. Pakistani government overall has ignored these differences so far in their poverty reduction policies that has greatly reduced their effectiveness.

OVERVIEW OF REPORT

The spatial pattern of poverty in Pakistan is gradually shifting from rural to urban areas as the country rapidly urbanizes and undergoes unplanned excessive urban growth. Urban poor have to confront tough challenges in their attempts to make a living in cities and government support has not been forthcoming to either restrict or properly manage this rapid urban growth. This report analyzes the effect of rapid urbanization on urban poverty levels and discusses factors, such as slow economic growth and structural adjustment programs, responsible for causing an increase urban poverty in Pakistan. It also provides recommendations including empowerment of local government and food subsidy provisions as remedies to urban poverty in Pakistan.

Chapter II will provide the key theoretical underpinnings behind this push towards urbanization and analyze how the empirical results have been vastly different around the world. It is important to understand economic models to frame a benchmark that could be used to compare the actual conditions of cities. The chapter concludes by discussing four common characteristics of the urban poor: i) limited employment opportunities, ii) poor living conditions, iii) minimal access to services, and iv) environmental and health risks.

Chapter III will analyze Pakistan's urban growth in light of these theories and discuss how it has led to urban poverty. It will also provide a background on Pakistan covering its political, economic and demographic structures. The chapter will conclude by analyzing the situation and living conditions of the urban poor residing in cities across Pakistan.

Chapter IV will analyze factors such as economic growth, structural adjustment programs, food prices and housing crisis that are responsible for the deplorable living conditions of urban poor in Pakistan. It will also argue how limited employment generation and infrastructural deficiencies are drivers of not only rapid urbanization but also urban poverty.

Chapter V will tie the factors responsible for causing urban poverty with policy recommendations that could be implemented to counter it. It will examine how an enhancement in the power of the local government, extension of credit and housing policy reform would help in mitigating the rapid rise in urban poor. The chapter will wrap up by summarizing the report and present some concluding thoughts.

All the quantitative and qualitative evidence provided in this report has been collected through secondary research. The secondary research included an extensive literature review, Pakistan population and housing census reports, Economic Surveys of Pakistan, Pakistan National Budget reports, Labor force surveys of Pakistan, and United Nations publications. Some of the evidence discussed in Chapter III has been based on the author's experiences and interactions in Pakistan.

Chapter 2: Theoretical models and supporting evidence

Historically, the majority of the world's poor population has lived in rural areas. It was the first time in history in the year 2007 that the absolute number of population living in urban areas was equal to the population living in rural areas across the world (Baker, 2008). It is estimated that currently one-third of the world's urban population lives below the international poverty line and constitutes about one-quarter of the world's total poor (Chen, Sangraula, & Ravallion, 2007). Even though the majority of the world's poor still lives in rural areas, the evidence seems to suggest that this is going to change in the near future as the developing world rapidly urbanizes. In 1995, 38 percent of the developing world's population lived in urban areas, but it is projected to increase to over 52 percent by 2020 (Ravallion, 2002). The urban population of the developing world in absolute terms is expected to reach 3.73 billion by 2025 that would be almost double its amount in 2000. The incidence of urban poverty as a share of the urban population is the highest in South Asia with over 35 percent of urban population living below "\$1 a day" and 76 percent living below "\$2 a day" (Chen, Sangraula, & Ravallion, 2007).

The rapid urban growth in developing countries is due to both 'push and pull factors'. In terms of push factors, rural poor are pushed out of their rural towns due to conflicts, natural disasters, food insecurity, environmental degradation, water logging of agricultural fields and absence of basic infrastructure. Cities attract people especially the rural poor with the promise of better job opportunities, greater access to social services, better infrastructure, increased social capital and an improved quality of life.

Unfortunately, these expectations are rarely met as urban centers have become the hub of high crime rates, overcrowded housing conditions, dearth of formal job opportunities, and absence of even basic social services such as proper sanitation and electricity. The

majority of the people migrating to urban areas lack the required skills and education to land high-paid skilled employment opportunities which forces them to work in the informal economy below minimum wage levels in exploitative working conditions. Over the period from 1993 to 2002, there was a 5.5 percent decline in the “\$1 dollar a day” poverty across the world, lifting 106 million people out of poverty (Chen, Sangraula, & Ravallion, 2007). However, this is a net figure courtesy of 153 million fewer rural poor which was accompanied by an increase of 47 million urban poor (Chen, Sangraula, & Ravallion, 2007). The increase in urban poor was partially due to the spatial shift of poverty with rural poor migrating to urban areas and increasing the total number of urban poor.

Urban economists and economic theorists have long purported that a shift from rural to urban growth is needed for countries to develop faster and achieve higher income levels. Development economic discourse has long encouraged countries to make the transition from a rural agrarian economy to a modern manufacturing economy. It is important to understand these theoretical frameworks to be able to apply them to the urban growth path pursued by countries around the world.

ECONOMIC MODELS OF URBANIZATION

The push towards urbanization has a sound economic rationale behind it. Economists have studied urbanization greatly and suggested that urbanization can be a key driver for economic growth. It is this underlying belief of higher economic growth that has encouraged countries around the world to pursue rapid urbanization. Also urbanization theorists have suggested that it is an effective way of tackling poverty. Urbanization will help tackle poverty by transferring labor from low-productivity agrarian sector to the

highly skilled modern industry located in urban areas (Wratten, 1995). There are three economic models of urbanization that are pertinent to urban poverty's discussion:

Dual-Sector Model

A simplistic two sector economic model developed by Arthur Lewis, a Nobel Laureate in Economics, provides the rationale for urban growth. He assumes that in any country there are just two sectors in the economy; agriculture and manufacturing. The low-skilled workers in rural areas work in the agricultural sector, while the highly-skilled workers work in cities in the manufacturing sector (Lewis, 1954). The agriculture sector has low wages, abundance of labor, low productivity and is labor intensive (Lewis, 1954). On the contrary, the modern manufacturing sector has high wages, higher productivity and has a capital intensive production process.

Under the dual sector model, there is a shortage of labor initially in the modern manufacturing sector that attracts the abundant labor currently working in the agriculture sector. The process of labor transfer continues until the wage differentials between both sectors are eliminated (Lewis, 1954). The transition of workers from agriculture to the modern manufacturing sector results in higher wages and greater productivity for workers. Since the modern manufacturing sector is located in urban areas, the policy implication from the dual sector model is for governments to pursue urbanization and development of modern manufacturing sector to grow. Based on this economic rationale, many developing countries focused on urban development and ended up attracting the poor workers from rural areas to cities. The 'urban bias' strategy pursued by the developing countries instead of tackling poverty in rural areas actually exacerbated rural poverty and also led to a spatial restructuring of poverty within the economy (Wratten, 1995).

Kuznets Hypothesis

Another key economic theory supporting urbanization reform is known as the Kuznets Hypothesis that bases its argument on income inequalities. Kuznets Hypothesis suggests that as the economy transitions from an agrarian to a manufacturing base, initially income inequalities will rise but will decline in the long run (Chen, Sangraula, & Ravallion, 2007). After reaching a certain stage, income inequalities decline as workers earn higher wages which also causes poverty to fall in the long run (Chen, Sangraula, & Ravallion, 2007). The Kuznets Hypothesis or the inverted U-curve also highlights that a rise in income inequalities will encourage government to intervene by offering subsidies and implementing pro-poor reforms. Government support coupled with higher wages in the manufacturing sector will lead to poverty reduction. In the long run, a reduction in income inequality would lead to a significant increase in incomes of the poor and poverty will rapidly decline in the society.

Currently, developing countries continue to have a skewed income distribution. Most developing countries have still not reached the peak of the inverted U-curve since their economic growth and job creation rates have been slow. Most cities in developing countries have sharp inequalities between their rich and poor classes. The reason for such a stark difference in fortunes of urban residents is because of the limited opportunities available to the urban poor in terms of work and services offered.

Harris-Todaro Model

A key driver for urbanization is the rural to urban migration rate. The economic rationale behind this migration pattern is explained in light of expected income differentials by the Harris-Todaro model. It looks at how lower income levels in rural areas encourages people to relocate to urban areas in order to improve their income and hence, it improves

their living standard (Perkins, Radelet, Snodgrass, Gillis, & Roemer, 2001). The income differentials are thought of as the main drivers of urban growth.

In reality the wage differentials can be minimal considering that a majority of the migrants end up working in the informal economy that gives them really low earnings. Even if in nominal terms workers earn more than their rural counterparts, they have to face a higher living cost that hardly makes them better off. The model is usually criticized for its simplicity and for not taking into account other economic incentives responsible for urbanization. However, it is still useful in understanding the primary reason behind migration from rural to urban areas i.e. wage differentials.

BENCHMARK & CONTRASTS

In order to identify key issues confronted by urban poor, it is important to establish a benchmark about the general expectations and benefits of living in a city. Ideally, a city is meant to be a place that “magnifies humanity’s strengths” and is believed to encourage competition, innovation and collaboration amongst the brightest minds in the country (Glaeser, 2011). The development of a city usually leads to an agglomeration effect which means that nearby suburbs become part of the metropolitan area. Urban agglomeration effects lead to development of a greater metropolitan area benefitting even the people living in adjoining areas.

Employment opportunities in cities are supposed to provide higher wages, better benefits and social safety nets to the urban workforce compared to their rural counterparts. The living costs are naturally higher in cities than rural areas but the higher price comes with a promise for a higher quality of life and better access to health and education facilities. Cities are meant to have better infrastructure and efficient service delivery of basic

utilities including water, electricity and sanitation than rural areas. It is the charm of access to such opportunities and services that drives people to live in cities.

URBAN POOR IN THE DEVELOPING WORLD

Urban poor in the developing world form the marginalized class in cities. Due to their economic status, they are unable to enjoy the same benefits such as access to better education and health facilities that higher-middle income families can. Large-scale infrastructural development projects such as highways and railway tracks displace many poor families as they are evicted from their temporary settlements to make way for these projects. Despite having different regional characteristics, urban poor across the developing world do experience a few common challenges:

1. Limited employment opportunities
2. Poor living conditions
3. Minimal access to services
4. Environmental and health risks

All these factors reduce the quality of life that any poor urban city dweller is likely to experience in a developing country and defy the benchmark that a city life is supposed to provide. They also challenge the economic rationale and intuition provided by the theoretical frameworks. It is important to be able to tie up theory with challenges witnessed by the urban poor in order to understand their applicability and possible limitations.

Limited employment opportunities

Limited income and employment opportunities are primarily responsible for ever-rising poverty rates in the developing world. Urbanization has definitely led to creation of multiple new job opportunities including jobs in the manufacturing and service sectors,

but the growth of such jobs has not kept pace with the ever-increasing poor population. In 2009, urban youth unemployment rate was around 24 percent in North Africa (ILO, 2010). The urban poor face difficulty in finding jobs in the formal sector due to their low education levels and lack of requisite skills. Under such circumstances, the only option available to them to make ends meet is to work in the informal sector where there are low wages, exploitative working conditions, no access to the legal system and absence of any social insurance (Baker, 2008). The informal economy includes both self employment and wage employment in the informal unregulated market such as a daily wage worker. Informal economies in developing countries can be as large as 70 percent of the country's GNP (Schneider, 2004). The biggest challenge with regards to informal employment is its unpredictable nature since it is excessively susceptible to market shocks and urban poor with minimal savings are at a severe risk of being unemployed (Baker, 2008).

Urban areas tend to have greater commercialization and people rely extensively on cash-based transactions especially much more than the rural areas (Wratten, 1995). The urban poor require hard cash to pay for rent, utilities, groceries and any other services that they use. Unlike rural areas, they do not have their own crop productions to help them fulfill their food requirements. They need to pay for services such as water and sewage which would likely be free in a rural setting (Wratten, 1995). The price levels of basic goods and services including food items are much higher in cities that make it even harder for the urban poor to purchase adequate quantities of them.

All three economic models (Dual Sector, Kuznets Hypothesis & Harris-Todaro) referred to wage differentials as the primary driver of urbanization. Wage differentials do exist in the developing world but only if you compare the highly-skilled jobs with a poor farmer's wage. However, the wages in the informal economy are very similar to those of a poor farmer. Considering that more than half the urban workforce works in the informal

economy, the wage differentials between urban and rural workers do not really exist to that great an extent. The remedy for tackling poverty in all three frameworks was the inherent assumption that higher wages will lead to higher income levels and push people above the poverty line. In reality that has rarely been the case and due to abundance of labor in urban job markets wage levels have generally been low.

Most developing economies are undergoing a transition from an agricultural economic base to a manufacturing and service oriented base. Such a transition has meant that there are fewer jobs in rural areas as the agricultural sector is on the decline. The dearth of jobs in rural areas encourages and in some cases forces people to relocate to cities to look for work. Most of the rural poor who migrate do not have the skills anyway to land the highly skilled and well-paid jobs. If they cannot land these jobs then the argument of higher wages tackling poverty would not even come into effect. The situation actually gets worse for these migrants since they now have to pay higher living costs and indulge in more cash-based transactions. Under such circumstances, a low real wage can actually make them worse off and would push them further into abject poverty.

Poor Living Conditions

The ever-increasing number of slums in the developing world presents a bleak picture of the living conditions of the urban poor. Slums are areas that have at least one of the four basic characteristics: i) lack of access to improved water supply, ii) lack of access to improved sanitation, iii) overcrowding (three or more persons per room), iv) dwellings made of non-durable material (Baker, 2008). Almost all these issues are confronted simultaneously by the urban poor in developing countries. Despite such poor living conditions, they have to pay exorbitant rents compared to what they would have paid residing in rural areas. Most of these settlements are informal and the threat of eviction

always persists. Many low income communities are located on the outskirts of the city from where even commuting is hard for most of the residents.

Government and law enforcement officials are usually extracting bribes from the urban poor to let them live on illegal land or property. A refusal to pay the bribe would lead to an eviction from their settlement. In many cities, local governments have cracked down on these illegal settlements and have driven inhabitants out onto the streets such as in Nairobi (Wratten, 1995). Sub-Saharan Africa and South Asia have the highest percentage of urban population living in slums; India has the highest absolute number of urban poor living in slums of around 170 million (Baker, 2008).

Kuznets hypothesis does account for widespread income inequalities initially but they are supposed to fall in the long run. Most cities in the developing world have income inequalities at display with posh neighborhoods located sometimes adjacent to slums. For example, Dharavi slums are bordered by the well-developed Bandra residential community in Mumbai, India. Dharavi slums do not have access to potable water, basic infrastructure is missing, roads are in a dilapidated condition and telecommunication networks are missing (Dhariwal, 2007). While Bandra is a posh suburban neighborhood where infrastructure has been properly planned and developed (Dhariwal, 2007). Such a stark comparison within a specific location in the city just goes to show the income inequalities present in the city. However, these income inequalities have been widening for the last few decades.

According to Kuznets, income inequalities would reduce as a result of higher wages to the migrant workers but that has hardly happened in reality. Migrant workers are stuck working in exploitative conditions with low wages and job insecurity. Modern manufacturing industry located in developing countries has grown by relying on developing a cost advantage to compete in both domestic and international markets.

Under such severe cost reduction strategies and cut-throat global competition, laborers hardly have any hope of being paid a decent wage that would lead to higher income levels. Poor living conditions and income inequalities are going to persist unless a paradigm shift in urban growth strategies occurs. Governments in the developing world have been slow in offering subsidies and ensuring the effective implementation of a minimum wage level. Most of the evidence presented does contradict the logic of the Kuznets hypothesis and shows how income inequalities are on the rise with no end in sight.

Minimal Access to services

Local governments have little incentive to invest in most of these illegal settlements as they know that they will be demolished or cracked down upon sooner or later. All new housing communities require massive infrastructural investment on the part of the government. Such infrastructural investment projects include constructing roads, building schools and hospitals, laying down sewage and water pipes, and erecting electricity transmission grids. However, investment in infrastructure has not kept pace with urban growth for most developing countries. The lack of investment in infrastructure has created a shortage of housing, inadequate sanitation and water services, power shortfalls and excessive demand for public transport (Baker, 2008). There are far and few public schools and hospitals available to the poorer communities. Public schools are rarely free to the general populace across the developing world. In most cities, poor have to pay a nominal fee to send their children to a public school. Even though they pay a fee, the quality of schools in most of these low income neighborhoods is still very low. Poor families do not have a lot of other school choices since private schools are unaffordable

for them. Absence of such basic services for urban poor forces them to have to pay over the market price to get access to these services.

One of the primary reasons for rural poor to migrate to urban areas in many developing countries is the hope that they will get access to these social services. Even when they get access to these services they have to pay a significant amount and still get poor quality. Most of these low income neighborhoods have to pay even more than the non-poor to gain access to these utilities and up front connection costs can be astronomically high. A study done in Guatemala showed that poor households had to pay on average \$146 just to get an electricity connection which is roughly one-fifth of the monthly income for a family of five (Baker, 2008). In a number of cities, slums and low income neighborhoods do not have the necessary infrastructure required for effective service delivery of utilities which encourages service providers to charge a higher amount to meet their delivery costs.

Kuznets' hypothesis mentions government intervention and subsidies as a way to tackle poverty. The fact that many squatter settlements are illegal, governments have little incentive to invest in their infrastructure. During 1990s, most developing countries that implemented Structural Adjustment Programs under IMF and World Bank guidance had to cut back on subsidies. Subsidy cutbacks especially on food items have made a number of basic food items unaffordable for the poor and contributed to an increase in poverty. Government's efforts to set a minimum wage have not been implemented effectively in most developing countries. A number of governments have been reluctant to impose any stringent checks and balances on manufacturing firms for the fear of any potential detrimental effect on their economic growth. Kuznets hypothesis does not take into consideration limitations on government intervention which is why it is hard to find empirical support for it.

Environmental and health risks

Low income housing communities and slums also face the greatest environmental, safety and health risks. Natural disasters such as earthquakes and floods can usually destroy these housing communities severely leaving the poor without shelter. The construction material used in building these houses are poor, while the temporary makeshift housing settlements are naturally prone to more damage in case of any natural calamity. It is a common occurrence in many urban cities across the developing world to witness cases of roof or housing collapse in slums causing many casualties.

Many low income housing communities are located near industries and face major health hazards because of that including polluted drainage facilities and solid waste dumps (Baker, 2008). Exposure to such polluted and toxic sites leads to a number of adverse health outcomes. Overcrowding in homes, poor sanitation facilities, and lack of access to clean drinking water are all causes of various infectious diseases that the urban poor face. In Nairobi for instance, incidence of diarrhea was 13 percent more in slums than in any other area in Kenya (Baker, 2008). Incidences of disease and mortality rates are much higher in slums due to these health risks and lack of proper medical care. Since a majority of the urban poor are working in the informal sector or are doing low paying jobs, they usually do not have any medical insurance and coverage which makes it even harder to get access to proper treatment. Poor health not only significantly impacts their meagre savings, if any, but also reduces their productivity at work which reduces their job security as well.

The rapid industrial growth as envisioned by the dual sector model has rarely taken place in the developing world. Manufacturing industries have not grown at a rate sufficient to absorb the abundant rural labor leaving many unemployed. Unemployment rates are alarmingly high in some African and Asian cities that have prompted especially poor

urban youth to pursue criminal activities. High income inequalities present between the non-poor and poor residents of the cities breeds resentment and encourages criminal tendency amongst the poor. Many slums are dangerous areas to reside in as they have some of the highest crime rates in the city. Criminal gangs are operating and located in many of these low income neighborhoods. Law enforcement officials are even reluctant to go into many of these neighborhoods and crackdown on their activities. Police in Rio de Janeiro (Brazil) until recently in 2010 had never launched a widespread offensive and crackdown operation on gangs operating out of its slums (Barbassa, 2010).

CONCLUSION

Rapid urbanization has posed unique challenges not only to the urban poor but also to governments across the developing world. Poverty has predominantly been a rural phenomenon for the most part of the twentieth century. Governments across the developing world are still attempting to understand the distinct challenges posed by urban poverty and implementing policies to reduce it. Pakistan is also in the midst of such countries who have historically been accustomed to treating poverty as only a rural occurrence. However, the fast pace of urban growth in Pakistan has been accompanied by a sharp increase in urban poverty.

Chapter 3: Political Economy of urbanization in Pakistan

Developing countries around the world are going to have the fastest urbanization rates in the next two decades. Countries like Pakistan which have a rapidly growing population are going to see a surge in establishment of new cities and witness a sharp increase in the size of their existing cities. Being the sixth most populous country in the world, Pakistan's urban growth needs to be properly planned otherwise the country could see a further increase in urban poverty. At the time of Pakistan's independence in 1947, over 90 percent of its population lived in rural areas and a majority of those lived below the poverty line. The situation in Pakistan today is similar in the sense that the majority of the population still continues to live in rural areas. However, the key difference is that over 35 percent of Pakistan's population lives in urban areas in 2009 and at the current urban growth rate they will soon become the majority. Many developing countries similar to Pakistan have undergone or are in the process of undergoing such a transition in their societies. In order to understand the nature of urban poverty in Pakistan, it is important to first look at its historical background and development path.

POLITICAL GEOGRAPHY

After the partition of the subcontinent in 1947, Pakistan was only left with one major city in the form of Karachi. Pakistan was formed as a federation of four provinces (Punjab, Sindh, Khyber-Pakhtoonkhawa, Balochistan) with independent legislatures and governments for each province along with a national government at the centre. At the time of Pakistan's creation, there was no local government set up and the provincial government was responsible for managing all the cities in their provinces. Pakistan has witnessed waves of autocratic and military dictators for most of its post-independence period but the last decade has seen it move towards a parliamentary democracy.

Pakistan started out as a predominantly agrarian economy with specialization in export of raw jute and cotton in 1947. The newly-formed country had a non-existent industrial base since the British had used it essentially for supplying their industry with raw materials. Over the years, the nature of the economy has changed due to a rigorous government effort to industrialize and develop the services sector. The agricultural sector was roughly about 53 percent of the GDP in 1950. Since then it has gone to 24 percent of GDP in 2004 (Haider & Haider, 2006). The services and trade sector of the economy has grown from 25 percent to 51 percent and the manufacturing sector has grown from 8 percent to 26 percent over the same period (Haider & Haider, 2006).

The service and manufacturing sector has been predominantly located in urban areas. Industries that were built in areas that were not urban at the time have since developed an entire city around the industry. A number of cities in Pakistan have developed as a consequence of an industry that opened up there. For example, Faisalabad developed essentially due to its textile industry and Gujranwala developed at the helm of its trading/manufacturing industries. Both Faisalabad and Gujranwala attracted labor from all parts of the country to work in those newly set up industries resulting in urban growth. Agricultural sector has been on the decline overall across Pakistan which has meant that rural areas have not seen rapid growth. Despite the fact that the agricultural sector comprises roughly about a quarter of the GDP, it still continued to employ over 46 percent of the working class in 2008.

Pakistani economy's transition to a manufacturing and service sector base has not brought about holistic development. Pakistan is ranked 125th out of 169 countries on the 2010 Human Development Index (HDI) computed by United Nations Development Program (United Nations Development Program, 2010). In 2005, 22.59 percent of its population was living below \$1.25 a day. A multi-dimensional poverty index is computed

by UNDP that factors into education, health and living standards to calculate poverty deprivation levels in a country. Pakistan's multi-dimensional poverty index showed 51 percent of the population to suffer from deprivations in health, education and living standards (United Nations Development Program, 2010). Despite such high poverty levels, the two largest allocations of the national budget are military spending and debt servicing. Government's spending on development-related expenditure continues to be around 4 percent of the GDP. Development expenditures include public spending on issues such as healthcare and education.

Energy crisis and electricity shortages have hindered industrial growth. In 2011, Pakistan was facing an electricity shortfall of 3210 Mega Watts which has caused up to 10 hours of load shedding in cities across Pakistan (The Times of Pakistan, 2011). Over the past decade, Pakistani society has witnessed innumerable terrorist attacks that have contributed to increased investor risk and reduced foreign direct investment. A study done by the Harvard Kennedy School of Government concluded that on average an increase of a standard deviation in terrorist attacks in a country leads to a net fall in FDI of about 5 percent of GDP (Abadie & Gardeazabal, 2007). A number of multinational companies have pulled out and relocated their operations to other neighboring countries. Entrepreneurs and local businesses find it hard to start or expand their businesses since credit is available at an interest rate of over 20 percent.

HISTORY OF URBAN GROWTH

Pakistan started out in 1947 with only one major city. But in 2010, it has over 30 cities with a population of over 100,000. The rapid growth in population and high fertility rates have contributed to urban growth in Pakistan. According to the last census conducted in 1998, about one-sixth of Pakistan's population lives in the six largest cities: Karachi

(9.34 million), Lahore (5.144 million), Faisalabad (2.008 million), Rawalpindi (1.41 million), Multan (1.197 million) and Hyderabad (1.167 million). Pakistani government has not conducted a formal census after 1998.

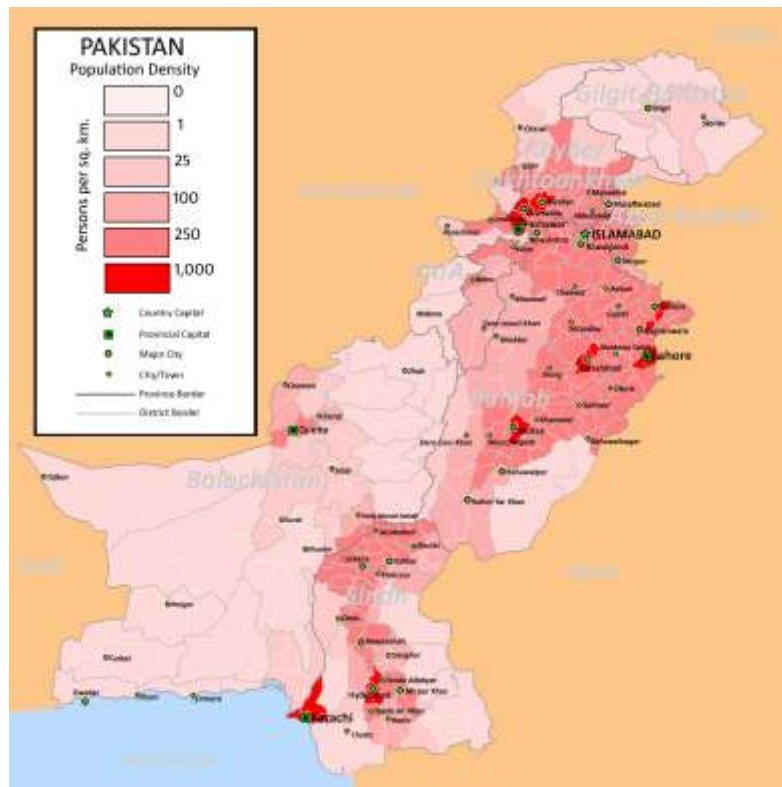
Figure 1: Map of population density in Pakistan in 1998



Source: Pakistan Population Census 1998

United Nations Population Division has made estimations about the populations of the six major cities in 2010: Karachi (13.1 million), Lahore (7.1 million), Faisalabad (2.8 million), Rawalpindi (2.02 million), Multan (1.7 million) and Gujranwala (1.64 million). It is important to note that five out of the six largest cities in 2010 are located in Punjab and the largest city is located in Sindh. None of these six cities is located in either Balochistan or Khyber Pakhtoonkhawa province.

Figure 2: Map of population density in Pakistan in 2010



Source: Population Census Organization, Pakistan

In 2005, it was estimated that more than half of the entire urban population resided in the 8 largest urban agglomerations in Pakistan (Arif & Hamid, 2009). It is estimated that both Karachi and Lahore will have a population of about 18.7 million and 10.3 million by 2025 making them amongst the largest cities in the world (Datu, 2010). Historically, urban growth in Pakistan has largely been concentrated in a few major cities but that is going to change in the future with smaller and medium cities growing faster. New cities will grow since existing cities are already beyond their saturation point and industry would relocate to new areas. Government of Pakistan has also been offering financial and tax incentives to entrepreneurs to set up in new areas.

The government of Pakistan initially categorized any town that had a population greater than 5,000 people as an urban area. But the government changed the definition of an urban area for the census conducted in 1981. The new definition for an urban area was “designated municipal corporations, municipal committees, or cantonment boards” (Haider & Haider, 2006). The new urban area definition was an administrative boundaries definition which meant that the number of people living in a town did not matter anymore. A town would be considered to be an urban area only if it had a municipal corporation or committee or a cantonment board in their area. Small towns did not have any such local organization which meant that they were considered to be rural areas. The new urban areas definition meant that major cities had their populations underestimated. Suburban residents are mostly employed in the city and rely on city’s resources such as transportation and hospitals. Cities population was underestimated since municipal corporations did not have authority over suburbs which meant that people living there were not counted.

Table 3: Population changes between 1981 and 1998

Area	Total Population in 1998 (%)	1981 Urban (%)	1998 Urban (%)	Rural Growth Rate (%)	Urban Growth Rate (%)
Pakistan	100	29.1	33.1	2.3	3.5
Khyber Pakhtoonkhawa	13.4	15.1	16.9	2.7	3.5
Punjab	55.6	27.6	31.3	2.3	3.4
Sindh	23.0	43.4	48.8	2.2	3.5
Balochistan	5.0	15.5	23.9	1.9	5.1
Islamabad (Federal Territory)	0.5	60.1	65.7	4.3	5.8

Source: Haider and Haider, 2006; Satterthwaite, 2002.

The pattern of urbanization has been irregular across Pakistan with both Punjab and Sindh urbanizing much faster than the rest of the country. However, the historical urbanization trend is changing with the remaining two provinces, Khyber Pakhtoonkhawa and Balochistan, urbanizing much faster now. It is interesting to note that more than 60 percent of the urban population in Sindh resides in Karachi and over 75 percent lives only in three cities in Sindh i.e. Karachi, Hyderabad and Sukkar (Arif & Hamid, 2009). In Punjab, only 22 percent of its population lives in Lahore and almost 50 percent resides in the five largest cities in the province. Quetta, the provincial capital of Balochistan, has almost 37 percent of the urban population of the entire province and Peshawar has 33 percent of the urban population of Khyber-Pakhtoonkhawa (Arif & Hamid, 2009).

Karachi's growth has been largely driven by the fact that to date it is the only port city in Pakistan. It had a well-developed port even at the time of the partition in 1947. Apart from Karachi, the rest of Sindh province has experienced sluggish growth. Unlike Punjab, Sindh province does not have a very fertile land which limits their agricultural production. A significant part of Sindh is covered by the Thar Desert where nomadic

tribes and families still reside. Punjab has been able to grow at a faster rate due to its high agricultural productivity. Its agricultural produce has benefitted immensely from the irrigation system that the British laid out to water the crops.

The current urban growth rate is expected to take the total urban population to 135 million by 2030 which would be almost half of the entire population of Pakistan (Haider & Haider, 2006). Population growth rate of Pakistan has declined in recent years and averages about 2.41 percent annually for the 2005-2010 periods. Karachi has the second fastest compounded growth rate in the world, only behind Dhaka (Bangladesh), from 1950 to 2000 with its increment in population every year averaging at 4.7 percent (Satterthwaite, 2002). Karachi also has the world's largest slum in the form of Orangi Town that houses a population of over 750,000. Urban change across Pakistan has been heavily influenced by political factors. Pakistan's partition in 1947 from India led to a huge influx of migrants from India to urban centers including Karachi and Lahore. The separation of Bangladesh in 1971 again led to massive urban change with migrants moving from the former East Pakistan to the present day Pakistan and settling mostly in urban areas. The Soviet invasion of Afghanistan and the more recent US invasion of Afghanistan have led to a major influx of Afghan refugees in many urban cities especially Karachi and Peshawar.

LOCAL GOVERNANCE STRUCTURE

Cities and urban municipalities across Pakistan have generally been managed by provincial governments. It was not until the year 2000 that a proper devolution and local governance plan was implemented which was followed up with an electoral process. The constitution of Pakistan clearly defines the roles of the national and provincial governments but it only 'encourages' establishment of local governments (Hasan &

Aleemuddin, 2004). The role of the local governments has been outlined by various ordinances that have been passed by provincial assemblies (Hasan & Aleemuddin, 2004). The first local governance effort was done by President Ayub in 1959 but his military regime was never able to gain legitimacy and the system fell apart with the demise of his regime (Haider & Haider, 2006). Over the next three decades, different leaders including General Zia ul Haq attempted to form local governments but they failed either because these local governments were given no actual power or they were self-appointed by the dictator and not elected by the people.

After coming to power in 1999 following a coup, General Musharraf implemented an elaborate local government and decentralization plan that reserved seats for women, formed citizen community planning boards, and held elections to elect city officials. The credibility of these reforms was undermined severely due to the military regime in power and the subsequent local elections held had reports of major irregularities (Haider & Haider, 2006). However, it was the first attempt made by the centre to actually empower people at the municipal level.

Every province in Pakistan is further divided into divisions, the divisions into districts, and the districts are divided into talukas or tehsils that are further divided into unions for local government purposes (Hasan & Aleemuddin, 2004). The local government structure is essentially a two-tiered system in rural areas with a district council and a union council. The district councilor represents anywhere from 50,000 to 100,000 people and a union councilor represents 1,000 to 1,500 people (Hasan & Aleemuddin, 2004). In cities, local government structure only has a single-tier with councilors elected for the municipality. The elected councilors in cities and union councilors in rural areas form a Panchayat committee that has two members from residents of the area (Hasan & Aleemuddin, 2004). The Panchayat committee has a few judicial functions such as settling minor

family disputes along with collecting population-based data and providing services such as supervision of mosques and promoting education. Elected Councilors in cities are supported by municipal and development authorities. For instance, local authorities in Lahore are Lahore Development Authority (LDA), Lahore Electric Supply Company (LESCO), and Parks and Horticulture Authority (PHA). All these local authorities work in tandem with the local government to provide.

Local governments are primarily responsible for providing water and sanitation, garbage collection, road maintenance, fire fighting services and managing illegal constructions (Hasan & Aleemuddin, 2004). There are some additional optional services that they are encouraged to provide which include setting up hospitals and clinics, child and maternity health centers, parks and recreational areas, and regularize katchi Abadis (Hasan & Aleemuddin, 2004). Even though all these responsibilities have been assigned to local governments, the devolution act has not outlined a reliable and continuous revenue stream for them. Local governments across Pakistan do not have the finances to fund their expenditure that leads to poor service delivery. The two sources of revenue for the local government are property tax collection and fund allocation by the national or provincial government. Local governments do not have the authority to levy any additional taxes and property tax collection continues to be really low. A study done by the UK Department for International Development (DFID) showed that property tax collection ranged from anywhere between zero percent to eight percent in most major cities across Pakistan (Hasan, 2008). Such a low tax collection rate means that property owners are able to evade property taxes completely, bribe tax collection officials or undervalue their property greatly resulting in a lower property tax payment. With such a low tax collection rate, local governments have to rely essentially on fund allocations from the national and provincial governments.

Funds allotted by the national and provincial governments are prone to excessive corruption and nepotism that is prevalent in all tiers of the government. National and provincial governments have also sometimes gone back on their commitments and refused to release the committed funds due to their own budgetary imbalances. Under such a dubious financial model, it is hard for local governments to deliver the services effectively that have been assigned to them including education, water and sanitation, and basic health services. The local governments do not even have the technical skills and expertise required to deliver the services effectively (Haider & Haider, 2006).

EXPERIENCE OF URBAN POVERTY

Urban poor in Pakistan confront the same challenges that people in other countries witness. They face limited employment opportunities, weak service delivery, appalling living conditions and serious environmental risks. In both Karachi and Lahore, urban poor are beginning to form the majority of the population living in those cities. Families living in squatter settlements and slums have increased sharply leading to overcrowding and congestion. Job creation has not kept pace with the rapid urban growth leaving many people unemployed.

Employment Opportunities

Formal sector employment opportunities are far and few. For example, Karachi Development Plan 2000 developed by the local government estimates that almost 75 percent of the working population of Karachi works in the informal sector (Hasan, 2008). Unemployment rate in Karachi city during 1990s was hovering around 17 percent and was constantly increasing because the total number of workforce pool was increasing faster than job growth (Hasan, 2008).

The 1990s saw Karachi witness ethnic strife that led to a significant number of casualties and deteriorated the law and order situation in the city. The economic impact of such insecurity and lawlessness was that many industries relocated to various industrial cities in Punjab. Cities such as Lahore, Faisalabad and Multan also have a significant informal economy. Even though these cities have witnessed a significant manufacturing growth rate, the majority of the jobs from this sector are restricted to highly skilled workers only. Such a limitation means that even though jobs are created in the economy the urban poor can still not take them up due to their low skill set.

A typical urban poor household in any city across Pakistan has younger men and women working in the informal economy. Older household members cannot usually do the physical work that the informal sector jobs require so they mostly stay at home. Men are usually unskilled daily wage workers that are willing to do any physical labor including construction. There are certain locations within the city that serve as pick-up points for these laborers and contractors or people who need them usually come there to pick them up from there early in the morning. There is usually an informally decided daily wage that these workers are willing to accept for their services but when the supply is abundant they are recruited for even lower wages. All daily wage jobs are always dependent on its demand and are highly unreliable since workers can even be left there waiting till late afternoon without anyone picking them up.

It is hard for migrant workers to find jobs in the formal job market since they usually do not have the connections or access to job networks that are needed to get formal employment. Even those who do have some acquaintances working in a factory or service industry can only land low-paid jobs such as watchman, driver or domestic servant. The lack of a well-developed skill set restricts their job opportunities and proves to be an impediment for them from getting high paid jobs. One avenue that is open to

these workers is always the possibility to set up a small business such as a food cart or a roadside cobbler. It is hard for them to open up a proper business as they have minimal access to credit and hardly have any of their own savings.

Unlike rural families where women would either stay at home or at most assist men at the time of crop harvesting season, in urban areas women have to work full-time too as families living costs are much higher in cities. Women on the other hand mostly serve as domestic servants doing cleaning and cooking in different neighborhoods. They usually work long hours on a meager monthly wage and work in multiple houses to maximize their earnings. Depending on the location of where they live, they might have to commute long distances to find work. They tend to even take their children especially younger daughters with them to help them with their work. The added benefit of taking daughters to work is that they can be trained for future employment as a domestic servant. All these informal sector jobs are highly insecure and exploitative since these workers have limited access to law enforcement mechanisms.

Urban unemployment rates are the highest in squatter settlements which makes the poor residents more likely to take up criminal activities to fund themselves. These criminal activities usually include murder, car theft, phone snatching, robberies and kidnapping. Karachi, being the largest city, has one of the highest crime rates in the country and crimes such as phone snatching and car theft are daily occurrences (Hasan, 2008). The shabby and devious nature of many of these squatter settlements provides an ideal cover for their criminal activity. It is also pertinent to note that most cities across Pakistan have also seen a significant increase in beggars on the streets especially children who are forced by their families to go beg at traffic junctions.

Poor living conditions and minimal access to services

Urban poor are always in search of cheap housing so that they can minimize their costs of living. Low cost housing construction has not kept pace with its demand and there is a severe shortage of affordable housing for the urban poor resulting in setting up of katchi abadis or squatter settlements. Katchi abadis are usually built by residents themselves or by an informal construction company on vacant land that is almost always government property. It is important to understand that a number of these katchi abadis can be illegal properties which make their residents highly vulnerable to eviction or demolition of their houses. Katchi abadis can even be regularized if they are constructed with the official approval of the local authorities and proper permits are issued. Many Katchi Abadis including Mecca Colony and Saidan Shah in Lahore are located around the railway tracks to provide its residents easy access to the main city.

Katchi Abadis are characterized by overcrowded housing, lack of a proper sewage system and waste disposal system and low quality roof/walls material. According to the Housing Census of Pakistan in 1998, over 30 percent of Katchi Abadis in Karachi were only one-room houses and 21 percent were three room houses. Electricity and water connections are usually available but the connection charges can be expensive. A study done on katchi abadis in Karachi showed that almost 34 percent of residents had 8 or more people per room in a house. Apart from congestion, there is usually just one shared bathroom and a kitchen available to the occupants. These houses are made of unreliable and non-durable construction material which makes them extremely dangerous especially in cases of any natural disasters. There is a dearth of proper sanitation and sewage services with no proper disposal sites. Water and sewerage services are to be provided by the inefficient publicly-owned utility company in most cities. Heaps of garbage and solid waste are common sights in any squatter settlement. In Multan, city government

estimates that 35 tones of solid waste is created on a daily basis but only 14 tones in collected and properly disposed of (Chaudhry, Malik, & Imran, 2006). It is estimated that around 89 percent of Katchi Abadi residents live below the poverty line only in Karachi (Hasan, 2008).

Some of the slums also fall under katchi Abadis. However, most slums are inner-city congested low-income housing communities that share almost all the characteristics of squatter settlements. Slums are mostly located next to wholesale markets, warehouses and storage facilities. Workers who work in those markets mostly reside in these slums. For instance in Lahore, slums are located inside the whole sale Shah Alam market that is a hub of textile wholesale trade. The Shah Alam market slum consists of small one or two room apartments constructed above shops.

Both slums and Katchi Abadis also do not have street roads built properly which makes it extremely hard for them to be properly connected to the main city. Most residents use the inefficient public transport to commute to work which can be a long journey since many of these settlements are located on the suburbs of the city. Both government and private schools are set up in a number of these settlements but the quality of education delivered remains to be poor.

Environmental and Health Risks

Squatter settlements usually only have a functional health clinic located in their area to cater to the sick. It is rare to find a proper fully-equipped hospital located inside these settlements. The health clinic never has all the necessary supplies and has long queues with people waiting to get treatment. The medical staff usually comprises of a general physician who provides treatment for almost everything under the sky. Only in extreme cases are the patients sent to proper hospitals. The prevalence of overcrowded and

unhygienic conditions in squatter settlements increases the risk of spreading infectious and contagious diseases. Katchi abadis are characterized by high infant mortality rates, water-borne diseases and malnutrition.

A number of these settlements are also set up near industrial plants in the suburban area which leads to further contamination of their water supplies, gives them exposure to hazardous waste and makes them inhale polluted smoke. Both slums and Katchi Abadis are easily damaged in case of an earthquake, flood and landslide. This is simply because they are constructed from non-durable materials that can easily get damaged in case of a natural calamity. Apart from that, a number of slums especially have suffered immense damages due to fires that broke out in one building but ended up engulfing a majority of the neighborhood. Considering that most of these settlements are constrained for space, they are literally built next to each other and are congested areas. In February 2011, a fire broke out in the busiest wholesale Shah Alam market in Lahore (Khan, 2011). It engulfed at least eight buildings including residential apartments causing four deaths and over 35 injuries (Khan, 2011). Rescue authorities were unable to contain the fire for a couple of days simply because the area was too congested and roads were too narrow to even fit a fire brigade. Most slums across Pakistan are congested, overpopulated and builders do not pay any heed to safety regulations. Such areas are extremely vulnerable to any environmental risk that could potentially cause a lot of damage.

CONCLUSION

Urban poor in Pakistan live in deplorable conditions that are in no way comparable to the benchmark set for the standard of living in cities. The only way to understand the difference between the benchmark and actual conditions in cities in Pakistan is to look at the factors responsible for this rapid increase in urban poverty. Existing and new cities

are continuously growing across Pakistan which is why urban poverty has the potential to become an even bigger problem in the next few years.

Chapter 4: Reasons for Urban Poverty's persistence

Urban poverty has been increasing post-1990s in Pakistan. It is not enough to simply acknowledge this increase in poverty. Rather it is important to understand the reasons behind it. Pakistan's GDP growth rate has slowed down for the most part during the last two decades. Urban poverty has increased largely due to this economic slowdown. But there are other factors that have also played a key role in increasing urban poverty including food prices, employment opportunities, housing crisis and Structural Adjustment Programs. All these factors have added to the misery of the urban poor and pushed some middle/low income families over the line to add to the tally of urban poor in Pakistan.

ECONOMIC GROWTH

Economic growth in Pakistan has been fluctuating in the last two decades. The 1980s saw Pakistani economy grow on average at 6.5 percent with both agricultural and manufacturing sectors growing quickly. Manufacturing sector's growth averaged at over 8.2 percent for 1980s. However, Pakistan has not been able to replicate such a phenomenal economic growth rate over the last two decades with GDP growth averaging 4.6 percent. A fall in GDP growth has led to an increase in unemployment rates and led to layoffs. The only reason that the GDP growth rate has even averaged over 4 percent is because manufacturing sector has continued to grow steadily and even had a double-digit growth from 2003 to 2005. However, the growth in manufacturing sector is usually not very helpful for the urban poor. Manufacturing sector usually requires skilled workers which a majority of the urban poor are not.

Literacy levels across Pakistan have generally been low. In 2009, the literacy rate was estimated to be 57 percent (69 percent for males and 45 percent for females) in Pakistan

(Ministry of Finance, 2010). In urban areas literacy rate is estimated around 74 percent compared to 48 percent in rural areas (Ministry of Finance, 2010). The Government of Pakistan defined a literate person as anyone “who can read a newspaper and write a simple letter in any language” (Ministry of Education, 1998). Under such a dubious definition, these literacy rates are misleading and do not necessarily exhibit the true education level of the labor force in Pakistan.

Most low skilled workers, such as the urban poor, tend to work in the construction sector working on daily wages. Unlike the manufacturing sector, construction sector has been on average on the decline throughout 2000s. In 2003-04 and 2008-09, construction sector actually had a negative growth rate of over 10 percent. Since there are already very few alternative job opportunities available to low skilled workers, drying up of jobs in the construction sector had a more drastic effect. Construction industry’s sluggish growth meant further lowering of household income and pushed families below the poverty line.

Table 4: Macroeconomic Indicators of Pakistan

Macroeconomic Indicators (% Growth)				
	GDP	Agriculture	Manufacturing	Construction
1960s	6.8	5.1	9.9	-
1970s	4.8	2.4	5.5	-
1980s	6.5	5.4	8.2	-
1990s	4.6	4.4	4.8	-
2000s	4.9	3.3	7.0	3.8
2000-01	2.0	-2.2	9.3	0.5
2001-02	3.1	0.1	4.5	1.6
2002-03	4.7	4.1	6.9	4.0
2003-04	7.5	2.4	14.0	-10.7
2004-05	9.0	6.5	15.5	18.6
2005-06	5.8	6.3	8.7	10.2
2006-07	6.8	4.1	8.3	24.3
2007-08	4.1	1.1	4.8	-3.9
2008-09	2.0	4.7	-3.3	-10.8

Source: Economic Survey of Pakistan, various years

Pakistani economy has undergone a transition from an agrarian base to a manufacturing one. Even though agriculture's contribution to the GDP has reduced drastically, it still continues to employ over 46 percent of the total workforce. However that is going to change in the near future as agricultural growth rate has been consistently falling since 1980s. Agricultural growth rate has fallen from 5.4 percent in 1980s to 3.3 percent in the 2000s. Considering that agricultural activities are almost entirely taking place in rural areas, a fall in agricultural growth rate increases rural-to-urban migration rates. Rural areas have very few other employment opportunities which forces most of these unemployed rural poor to migrate to urban areas.

Slow agricultural growth is not entirely responsible for the increasing unemployment rate in the agricultural sector. Increased mechanization of farming practices has also increased farm productivity and reduced the need for more labor. With their limited skill set and already poor economic condition, migrant workers move to cities where they find it

difficult to find jobs and end up becoming part of the urban poor. Macroeconomic projects such as the Structural Adjustment Programs have played an important role in changing the nature of government spending in Pakistan. The effects of such macroeconomic changes have been borne by urban poor.

STRUCTURAL ADJUSTMENT PROGRAMS

Since 1988 International Monetary Fund (IMF) and World Bank (WB) have worked with the Pakistani government to implement Structural Adjustment Programs (SAPs). All aid and loans from the two organizations has been directly or indirectly tied to SAPs effective implementation. Pakistan has implemented multiple different types of SAPs from 1988-91, 1993-96, 1997-2000, 2000-2001, 2001-2004, and 2008-2011. The essential purpose of any Structural Adjustment Program is to help the country achieve fiscal stability, avert a balance of payments crisis and reduce its debt. Fiscal stability implies that the government's expenditure should not exceed its revenues and both should be kept in balance. Reduction in external debt means that IMF wants Pakistan to repay the loans it has drawn from external creditors. Balance of payments crisis refers to a situation where the money is flowing out of Pakistan faster than Pakistan can make up by borrowing. In such a case, usually the local currency is also losing its market value quickly. The idea behind SAPs is that the country should become self-reliant and achieve sustainable long term growth. Even IMF acknowledges that the country might have to face some short-term economic hardships but economic stability in the long run justifies it.

SAPs have been developed keeping in mind the neo-liberal ideology that stresses upon market liberalization, de-regulation and privatization as drivers of economic growth. SAPs in Pakistan have essentially revolved around four basic principles: i) Trade

liberalization, ii) Privatization of state-owned enterprises, iii) Economic de-regulation, and iv) Reducing fiscal deficit. Trade liberalization means that the government has to reduce their import duties and do away with trade barriers (like quotas and tariffs). Publicly-owned companies including utility companies have to be privatized to reduce public sector losses and improve their efficiency. Economic de-regulation means that the government has to cut back on social safety nets, subsidies and regulation in the market. While reduction in fiscal deficit is possible only either through an increase in public revenue or a decrease in public expenditure meaning that the government has to bring about tax reform, improve its tax collection and reduce its expenditures.

As a result of SAPs, Pakistani government reduced their maximum tariff from 225 percent in 1988 to 100 percent by 1990 and brought it further down to 30 percent by 2001 (Kemal, 2001). A loss in tariffs meant that the government had to find an alternative way to make up the lost revenue. Until 1990, Pakistan's tax structure was considered to be progressive where the higher the income one had the higher the taxes they had to pay. However, all that changed with the introduction of the general sales tax in 1990 which was imposed on all goods and services including food products.

Table 8: Tax Structure of Pakistan

	Direct Taxes (%)	Tariffs (%)	Sales Tax (%)
1980-81	20.1	36.7	7.4
1989-90	13.2	42.4	13.0
1996-97	26.8	26.5	17.2
1999-00	27.6	15.6	28.9
2004-05	27.9	17.8	35.8
2006-07	34.6	17.2	32.4
2008-09	38.0	12.8	39.0

Source: Economic Survey of Pakistan, various years

Sales tax imposition increases the tax burden on the poor since the goods and services that they were consuming at a cheaper rate have a tax imposed on them now. Sales taxes have progressively increased since late 1980s and in 2008-09 comprised of almost 39% of total tax revenue for the government. During the period 1988-1998, the increase in sales tax has led to a 7.4 percent increase in tax burden for the poorest quintile and declined tax burden for the richest group by 15.9 percent (Kemal, 2001). The imposition of sales tax has had a significant direct effect on the urban poor. Since urban poor households purchase all their food items and services from the market, they have had to pay an additional tax on them.

Trade liberalization has had another detrimental impact on urban poor. Most of the industrial growth in Pakistan has been located in urban areas. The opening up of borders meant that the once protected local industries faced stiff competition from increased imports. It has led to either partial or complete shutting down of many industries in cities causing major layoffs and increasing the pool of unemployed urban poor.

IMF has directed the government to cut back on food subsidies since they increase the fiscal deficit. Reduction in subsidies has led to a significant increase in food prices. As part of the first SAP in 1989, government reduced its subsidy on both wheat and edible oil which led to a price increase of both products by 9.5 percent and 22 percent respectively (Anwar, 1996). At the same time, government's subsidy reduction increased the price of petroleum by 42 percent, electricity by 13 percent and gas by 37 percent (Anwar, 1996).

Table 9: Price levels and subsidies in Pakistan

	Food Subsidies (% of Social sector spending)	General Consumer Price Index (%)	Food Consumer Price Index (%)
2001-02	2.59	3.54	2.50
2002-03	5.22	3.10	2.83
2003-04	3.25	4.57	6.01
2004-05	1.71	9.28	12.49
2005-06	1.60	7.92	6.92
2006-07	1.29	7.77	10.28
2007-08	38.24*	12.0*	17.64*
2008-09	22.57*	20.77*	23.70*

Source: Economic Survey of Pakistan, 2001-2009

* World Food price crisis occurred during 2007-2008.

IMF has pushed the government to phase out food subsidies. During the period 2002-2007, food subsidies were reduced from 5.22 percent of social spending to a mere 1.29 percent. At the same time, both food prices and general inflation continued to increase on average by 6 percent per annum. An increase in food prices could potentially benefit the rural poor farmers who are net producers of food products and could lead to a rise in their incomes. However, urban poor are only food consumers so they were hit hard by the increase in food prices and reduction in subsidies.

In order to achieve fiscal stability, Pakistani government has been regularly asked to cut down on its expenditures. The biggest expenditures out of government's budget are defense and debt servicing. However, both these expenditures are never under threat of cut backs. Defense sector spending is considered to be important to manage the volatile security situation in Pakistan. While debt servicing has to be undertaken to repay the loans owed to creditors and a delay in loan repayments could lead to donor's refusal to future loans. Since both those sectors are ruled out, the axe naturally falls on development expenditures that include health, education and infrastructural development. Pakistani government has reduced its development budget throughout the past two decades. In

1981, Pakistani government spent about 9.3 percent of the GDP on development expenditure. By 1999-00, development expenditure had reduced to 3.4 percent of GDP and since then it has hovered around the 4 percent mark with it being 4.3 percent in 2009-10. Development expenditure has a significant effect on the urban poor especially as they are relying on social service provision by the government. The fact that the government has significantly reduced its expenditure on schools, hospitals, public transport, roads and housing leads to further impoverishment of the urban poor.

The key component missing from Structural Adjustment Programs has been attention paid to local conditions. The Government of Pakistan implemented SAPs without taking into account the challenges confronted by the poor. There is a missing link between the government and the community. The government of Pakistan has never reached out or involved these poor urban communities in an attempt to understand their issues. If such an attempt had been made, the government would have possibly realized that cutting back on development expenditure would have serious repercussions for the poor. Involvement of community-based organizations in the decision-making processes can be a useful tool in gearing macroeconomic policies towards community development.

Structural Adjustment Programs have deeply affected the urban poor. They have led to a reduction in employment opportunities, increased inflationary pressures, reduced development expenditure and increased tax burden on the poor. The purpose of the SAPs was to reduce budget deficit to below 3 percent but that has continued to remain over 6 percent (Kemal, 2001). GDP growth has remained pretty much constant around 4.7 percent throughout 1990s and 2000s. Poverty levels continued to remain over 30 percent during 1990s and early 2000s (Kemal, 2001). In 1988, urban poverty was estimated to be around 15 percent but that soared to 26% by 2000. There is no doubt that during this period SAPs have definitely been a contributing factor towards increasing poverty levels

across Pakistan. However, it would be imprudent to blame SAPs solely for all the economic hardships experienced by the urban poor. The slow job growth rate has had a significant effect on urban poverty levels.

EMPLOYMENT OPPORTUNITIES

Pakistan has rapidly urbanized over the past two decades but GDP growth rates have not kept up with them. The biggest issue with a slow growth rate is that job creation rate is slower and unemployment rates start to increase. According to estimates, Pakistan's GDP growth rate would have to exceed 8 percent for it to have a sufficient job growth rate (Kemal, 2001). A quick look at Pakistan's economic performance suggests that it would be almost impossible to sustain a GDP growth rate of over 8 percent.

Table 6: National employment trends in Pakistan

	Pakistan GDP growth (%)	National unemployment rate (%)	Urban unemployment rate (%)
1994-95	5.1	5.4	4.8
1999-00	3.9	6.4	8.9
2003-04	7.5	7.7	9.7
2005-06	5.8	6.2	8.0
2008-09	1.2	5.5	7.1

Source: Labor force surveys of Pakistan, various years; Economic Survey of Pakistan, various years.

Urban unemployment rate has generally remained high in Pakistan and exceeded the national unemployment rate since 1995. Pakistan's economic growth performance has been erratic and industrial growth has been slow. Real wages have been stagnant throughout 1990s and workers belonging to poorer households have been associated with higher unemployment across Pakistan (Kemal, 2001).

Urban workers in the informal sector are either daily wage workers or self-employed. In some cases where these workers have savings, they set up small enterprises. Both self-employment and setting up of a small business venture are productive ways of earning a decent amount. However, they need access to credit at affordable terms to be able to do either of these. Most urban poor households have minimal savings so it is hard for them to conjure up the capital needed to start a business. Microfinance and public financial institutions provide credit at usually exorbitant interest rates which scares the poor away. Even if they are willing to pay the high interest rates, it is only available if they have a collateral or guarantor that the bank finds acceptable. It is hard for poor people to find collateral since they rarely own any assets and are living in squatter settlements. Under such circumstances, the only option left for them is to work as daily wage workers or find some other job in the informal sector. The uncertainty of employment makes the urban poor more susceptible since they need cash on a daily basis to cover their expenses. Both slow job creation in the economy and limited access to credit is pushing more people towards the poverty line.

The avenues available to urban poor to enhance their skill sets are also minimal. Technical and vocational training institutes are far and few in cities. Vocational training institutes usually offer a few basic courses in information technology, engineering, textiles and medicine. All technical training programs are meant for people who want to work in an industry as a skilled worker but do not have the necessary skills required to do it. Most course programs are short varying from anywhere between a week up to a year and equip an individual with the basic skills required for a specific profession. Vocational training institutes are run both by private and public sectors. Privately owned institutes usually charge a significant fee for their technical training courses which renders them

largely unaffordable for the urban poor. The public-run technical training institutes often charge really low fees but the quality of the programs offered is really poor.

High unemployment and inflation rates have driven poor households to take up begging or in some cases pursue criminal activities. Petty crime has been on the rise in many cities especially Karachi and Lahore due to their rapidly increasing size. Common petty crime activities include car theft, phone snatching and kidnapping for ransom. In crowded parts and traffic junctions in the city it is common to see many poor people either offering to clean your car or selling some evening newspaper or flowers. Joblessness of parents in a poor household holds adverse consequences for children as well. Poor households tend to pull out their children from schools so that they can put them to work. Children are often seen working on traffic signals selling flowers, cleaning car screens and begging. With their already low income levels, poor households have to pay higher living costs in cities. Both housing and food prices are significantly higher in cities that makes it extremely difficult for poor families to make ends meet.

FOOD PRICES

Food items are one of the primary expenditures for any poor household. In 2005, monthly food expenditure was about 48.3 percent of household expenditure in Pakistan (Haq, Nazli, & Meilke, 2008). The monthly food expenditure for the poorest 20 percent living in urban areas was 53.7 percent in 2005 (Haq, Nazli, & Meilke, 2008). If an urban poor household spends over half its monthly income on food items then any inflationary pressures on food prices will have a significant effect on their welfare. Urban poor do not have the luxury of farming or growing crops since they are mostly living in squatter settlements. They have to buy their food items from the market at prevailing prices. Out

of their total expenditure on food items, they spend just over half of their food budget on wheat, milk and rice.

Table 5: Food Price Changes in Pakistan

	Wheat Price (% change/kg)	Milk Price (% change/litre)	Rice Price (% change/kg)	Food Consumer Price Index (%)
2001-02	5.31	2.40	16.66	2.50
2002-03	17.41	4.69	5.37	2.83
2003-04	13.95	10.78	6.04	6.01
2004-05	-1.11	12.31	-0.15	12.49
2005-06	3.55	11.80	14.63	6.92
2006-07	37.46	13.96	63.44	10.28
2007-08	45.19	20.26	24.76	17.64

Source: Economic Survey of Pakistan, various years

With the exception of 2004-05, both wheat and rice prices have increased steadily. The price of milk has consistently increased and it has even exceeded the overall food inflation rate. Such sharp increases in food prices have significantly affected the purchasing power of the poor and reduced their real wages. Considering that most of the urban poor work in the informal sector, their wages have not kept pace with the inflation rate. Most of the daily wage workers see only marginal increases in their income over long periods of time since there is such an abundance of labor. Urban poor have to usually work extra hours to increase their earnings to meet the higher food consumption costs. The world food prices spiraled during 2007-08 which had a direct impact on domestic food prices in Pakistan. Food shortages are a common occurrence in most cities across Pakistan. Shopkeepers start charging premiums whenever there is a shortage which leads to food prices increasing even further. Government used to subsidize many of these food products and also subsidized farm production so that food prices were kept

in check. However, Structural Adjustment Programs and large budget deficits have reduced government's ability to subsidize food items.

Considering that wheat and rice are both the cheapest and staple food items available anyway in the market it is hard for poor households to switch to other cheaper food items. Food prices play a key role in determining urban poverty levels. Most poverty lines in Pakistan are calculated using a caloric base line of 2350 calories per day for an adult. The rapid food inflation rate makes it extremely hard for people to meet their daily caloric requirements resulting in a greater urban poor population. The impact of

HOUSING CRISIS

Pakistani governments have historically never shown a keen interest in investing in low income housing communities. On top of that, municipal corporations have been reluctant to issue house construction permits freely that has led to a severe shortage of houses in cities. Pakistani government has rarely given housing subsidies or devised a policy to subsidize monthly rent for low income households. A combination of all these practices has led to a serious housing shortage in cities across Pakistan. Housing shortage encourages illegal construction, establishment of Katchi Abadis and temporary settlements. All these make-shift housing arrangements make the urban poor extremely susceptible to evictions and make them vulnerable to exploitation at the hands of local city officials.

The demand-supply housing gap is significant in most major cities since local government officials usually do not issue a sufficient number of building permits. In Karachi, it is estimated that roughly 80,000 housing units need to be constructed per year to keep up with the demand but on average only 25,000 permits are issued per year (Hasan, 2008). The housing crisis in Karachi has worsened to the extent that over half

its population amounting to nearly 6 million people in 1998 lived in either katchi abadis or slums (Hasan, 2008). Lahore has more than 300 katchi abadis that house almost 38 percent of its population and over 40 percent of Faisalabad's population lives in katchi abadis. At least one in every three city dwellers in Pakistan lives in a slum or katchi abadi (Arif & Hamid, 2009). It is not a mere coincidence that urban poverty levels are the highest in these squatter settlements and slums. In both Karachi and Lahore, almost 89 percent of katchi abadi residents live below the poverty line (Hasan, 2008) (Kalim & Bhatti, 2006).

If the squatter settlement has been set up illegally, then residents have to constantly bribe the local police and municipal corporation officials to avoid eviction. Government crackdowns are a common occurrence and tenants are thrown out of their houses with no compensation provided to them. Residents usually invest in their temporary settlements to acquire water, gas and electricity connections. All their investment is wasted which is a big financial loss to these poor families. In Karachi alone, from 1992 to 2007 almost 200,000 people were evicted and their houses or shops were demolished (Hasan, 2008). Apart from evictions, local governments have been displacing many of these squatter settlements to carry out infrastructure projects such as laying out rail tracks or constructing expressways. The displaced families are rarely given any compensation or relocated to a different area.

Table 7: Pakistan Housing Census 1998

	Owned (%)	Rent (%)	Rent Free (%)	Persons Per Housing Unit
Pakistan Urban	68.92	22.66	8.43	7.1
Pakistan Rural	86.80	2.22	10.98	6.8
Punjab Urban	72.99	18.90	8.11	7.2
Sindh Urban	64.96	26.19	8.85	6.8
Khyber Pakhtoonkhwa Urban	63.65	28.93	7.42	8.1
Balochistan Urban	71.48	20.31	8.21	8.0

Source: Population & Housing Census 1998

A majority of people residing in urban areas across Pakistan usually own their houses. In both Sindh and Khyber Pakhtoonkhwa urban areas, over quarter of the houses are rented out. It is interesting to note that the persons per housing unit are comparatively higher for Pakistan urban areas than rural areas. Both Khyber Pakhtoonkhwa and Balochistan have much higher persons per housing unit average compared to the other two provinces. It is higher because both provinces have just recently started to urbanize quickly and they are economically the two weakest provinces in the country.

The absence of reliable and affordable housing means that urban poor are always on the lookout for makeshift temporary settlements. An acute shortage of housing on the market also raises the rental price and land/construction price in cities. Low income households cannot afford to either pay the high rental charges or purchase a land and construct their own house. Inflated housing prices coupled with a high unemployment rate makes families extremely susceptible to evictions or relocation. Rental payments are a significant portion of a poor household's monthly income making any fluctuations in rent or income extremely risky. Considering that poor families usually have meager savings, they can hardly afford to pay the rent or utility bills if their monthly income falls. Most

low income families make investments on their existing temporary settlements which can go to waste if they are evicted from them.

CONCLUSION

The rise in urban poverty has been driven by both macro and micro level factors. Factors such as Structural Adjustment Programs and World food prices are not necessarily within the government's control. However, policies such as a food ration subsidy could help to mitigate the effects of these factors on urban poor. Both the housing and employment shortages need to be quickly addressed. Government of Pakistan needs to come up with a holistic poverty alleviation program that addresses issues such as education, healthcare, employment and housing. Only a comprehensive program can keep urban poverty in check and even reduce it in the long run.

Chapter 5: Policy Implications

Urban poverty is a multifaceted problem. Pakistani government has to implement a comprehensive package of reforms to control the rapid rise in urban poverty. The rapid rate of urbanization across Pakistan makes it even more challenging for the government to keep urban poverty in check. The Pakistani government could invest in rural development programs to mitigate the migration rate. However, such a step could potentially become an obstacle in achieving the economic transition from an agrarian to a manufacturing base. A more feasible policy would be to encourage development of new cities by offering incentives to industries and businesses to locate there.

As for the existing cities, Pakistani government would have to plan interventions in labor markets, education, credit services, housing sector and food prices to effectively tackle urban poverty. Government would also need to work with community-based and civil society organizations to achieve tangible and sustainable results. Local government structures across Pakistan need to be strengthened. Local governments have a profound effect on quality of service delivery and representation of the local community. Unlike the national or provincial governments, local governments can tailor-make policies that are suited to local conditions and gear them towards tackling specific challenges. It is equally important that all these interventions are implemented simultaneously since they would complement each other and help poor families.

COMMUNITY-BASED ORGANIZATIONS

Federal government, donor agencies and civil society organizations should encourage formation of community-based organizations in katchi Abadis and slums. Community involvement can play a key role in providing the much-needed services in these communities. Local governments have generally been inefficient in providing services

and building infrastructure in these areas. Community-based organizations can take responsibility for maintaining infrastructure and ensuring effective service delivery to their residents. It is important to note that these organizations are not meant to replace the local government or municipal authorities instead they are supposed to work together with them (Haider & Haider, 2006). For instance, community-based organizations can lay out the internal water pipe network which can then be connected to the municipal water supply network by the local government (Haider & Haider, 2006). Community-based organizations provide effective representation to katchi abadi residents and are able to pressurize the local authorities to improve service delivery to the area. Projects pursued by such organizations generally take into account local conditions and are geared towards resolving specific challenges confronted by their residents.

Orangi Pilot Project (OPP) is an example of such a community-based organization. Orangi town started out as a small squatter settlement for workers working in the nearby industrial area. It has grown into a settlement of over 100,000 houses with roughly a million residents making it the largest slum in the world (Hasan & Aleemuddin, 2004). Community welfare organizations were set up by local community leaders and workers so that they could lobby with local authorities to get increased access to services and reduce the threat of eviction. In 1980, Orangi Pilot Project was set up with the purpose of analyzing the problems of Orangi town and coming up with solutions for them. OPP was divided into four organizations later; OPP Research and Training Institute (OPP-RTI), Karachi Health and Social Development Association (KHASDA), Orangi Charitable Trust (OCT), and OPP Society (Hasan & Aleemuddin, 2004). OPP-RTI developed a low-cost sanitation program, laid out the water and drainage network, established schools, and introduced a low-cost housing program. KHASDA was responsible for increasing health awareness and setting up local clinics in the area. OCT acted as a microfinance institution

that gave small loans to residents who wanted to start a business. The OPP Society was responsible for finding potential donors and philanthropic foundations that were willing to donate funds to ensure smooth running of the entire Orangi Pilot Project.

A community-based organization, OPP, was able to establish over 650 schools and 800 health clinics (Hasan & Aleemuddin, 2004). Its microfinance project led to setting up of 40,000 small businesses that have provided employment to over 150,000 people (Hasan & Aleemuddin, 2004). Low-cost housing program has been successful in helping families improve their houses and ensure proper maintenance. OPP has-RTI has provided vocational training to a number of residents and developed their skills like masonry. The success of the OPP has encouraged international donors such as the World Bank and IMF to support their efforts (Hasan & Aleemuddin, 2004). OPP has also established strong links with the local government to ensure that Orangi town residents are given electric, gas, and water and sewage connections. OPP has been able to fill the vacuum that was created due to the lack of services offered by the local authorities. OPP's success story is now being replicated in a number of katchi Abadis across Pakistan. Considering that there are over 700 katchi Abadis in Karachi alone, it would take a significant effort on the part of the government to implement such initiatives.

Establishment of community-based organizations is extremely important to ensure the welfare of urban poor. Community involvement is also helpful in mitigating the marginalization of the urban poor and gives them a sense of involvement in the development process. Ideally every katchi abadi should have its own community-based organization but financial constraints might make it feasible only for larger settlements to have one. But smaller settlements located nearby could be lumped together to form a larger settlement making it easier to pursue infrastructure and development projects.

Community-based organizations are a means of ensuring effective service delivery and infrastructural development in low income communities.

HOUSING POLICY

Katchi Abadis are mostly constructed on public lands without any seeking any formal approval from the authorities. Local authorities from time to time demolish these settlements and evict the tenants to reclaim the land. A katchi abadi regularization policy is essentially aimed towards granting property rights to these settlements and officially recognizing them as legal housing settlements. As part of the regularization policy, katchi abadi are offered 99-year leases by the government for their house. If a katchi abadi is constructed on a private land, then the government provides them with an alternative location or compensation.

Over the years, various governments have enacted katchi Abadi regularization acts that have secured tenancy for a number of urban poor households. However, bureaucratic processes and institutional corruption has hindered the regularization program's effectiveness. For instance, Katchi Abadi Improvement and Regularization Program (launched in 1984) was able to regularize only 1 percent of katchi Abadis per year (Hasan & Aleemuddin, 2004). At this rate katchi abadis in Karachi, which are about 700 in number, would be regularized in roughly a hundred years assuming that no new settlements are established. Regularization of katchi Abadis is important since it enables these communities to get access to services, avoid eviction, and reduces manipulation by police and local authorities.

Regularization of katchi Abadis is obviously a stop-gap short term solution. Government of Pakistan needs to launch low-cost housing schemes and extend housing finance to poor families. Katchi Abadis are only established due to the dearth of low-cost housing

options available. Cities across Pakistan require at least 500,000 new housing units every year to meet their growing needs (Hasan & Aleemuddin, 2004). However, only about 150,000 are built every year which forces the poor to live in temporary settlements or katchi abadis (Hasan & Aleemuddin, 2004). Around 90 percent of katchi Abadis residents in both Lahore and Karachi live below the poverty line (Hasan, 2008). The only way for the government to stop construction of new katchi Abadis is by investing in low-cost housing projects for the poor. Government-sponsored housing would not only improve the living conditions of poor families but also reduce health and environmental risks posed to them.

MICROFINANCE SCHEMES

Microfinance schemes allow poor families to gain access to credit to set up small enterprises. Commercial banks are unwilling to extend credit to poor families since they do not have collateral or a reliable income stream. Under such circumstances, poor families are left at the whims of the informal credit market where you can get a loan on exorbitant interest rates. Microfinance schemes provide a new outlet to the urban poor to get loans to either help them meet their monthly income shortfall or to start a new business. Most microfinance institutions in Pakistan are more willing to give loans for business purposes rather than to cater to personal needs.

The target market of microfinance institutions is estimated to be about 30 million out of the total population of 170 million (Rauf & Mahmood, 2009). Government of Pakistan set up Khushhali Bank to serve as the primary public microfinance institution in the country. In 2006, Khushhali Bank had only reached out to 600,000 out of 30 million borrowers (Haider & Haider, 2006). Government had set a target of reaching out to 3 million borrowers by 2010 through both public and private microfinance institutions. But

only over a million borrowers had been extending credit by 2009 (Rauf & Mahmood, 2009).

Microfinance industry has grown considerably in the last two decades. But the rapid growth in poor population has meant that it has been unable to keep pace with it. Government needs to play a more pro-active role in encouraging private banks to enter the fold and initiate microcredit programs. Since microfinance institutions significantly rely on donor funds, Government could encourage international donors to invest in the industry. It is also equally important to ensure that these microfinance institutions are set up near katchi Abadis so that households have easy access to it. In the absence of microfinance institutions, urban poor have no option but to work in the informal sector and earn low wages. The possibility of starting a new business promises to not only increase household earning but also creates jobs in the community. Microfinance could even be considered as a job creation strategy for the government and would go a long way in helping out the urban poor.

LOCAL GOVERNANCE STRUCTURE

Rapid urban growth cannot be properly managed unless local governments and municipal authorities are strengthened in Pakistan. Currently, local governments do not have a sustainable revenue stream and is staffed with people lacking the desired competencies. The role of local governments in urban development and poverty alleviation programs is critical. Local governments are aware of the local conditions in different cities and can gear their development programs at targeted communities. Municipal authorities that assist local governments in service delivery need to have greater checks and balances. For example, Lahore Electric Supply Company (LESCO) has been blamed for bribe-taking, unnecessary connection installation delays and poor customer service. Both local

government and municipal authorities need to have an accountability system in place to improve efficiency and service delivery.

Both national and provincial governments need to allocate more funds to local governments for their expenditure. Considering that budget allocations by the center and province are the main revenue stream for local governments, it is important that they are allocated timely. Local governments especially in larger cities like Karachi, Lahore and Faisalabad should be allowed to levy direct taxes on their residents. Property tax collection process should be revamped to reduce tax evasion. Similar to national and provincial government, local governments should also be allowed to float bonds in the market to finance infrastructural projects (Haider & Haider, 2006). A complete municipal financial reengineering is needed to ensure fiscal sustainability of local governments.

Local governments need to build staff capacity by hiring urban planners, civil engineers and policy analysts. Municipal governments are mandated with providing primary education, setting up clinics, building and maintaining infrastructure. All these services can only be effectively delivered if they have the capacity and skilled personnel on their staff. Certain municipal services such as water and sanitation, and public transport are still under the purview of the provincial government (Haider & Haider, 2006). It is important that these services are transferred to local governments to reduce administrative and operational inefficiencies. Transfer of such services will reduce bureaucratic redundancies and improve service delivery.

EDUCATIONAL INITIATIVES

Pakistani government allocated Rs. 34.5 billion to the education sector in the FY 2010-11 which is 1.8 percent of its total expenditure (UNICEF, 2010). Under the new education policy, Pakistani government has set a target of increasing spending on the education

sector to 7 percent by the year 2015 (Siraj, 2010). Over the past four decades, the highest ever allocation to the education sector was 2.80 percent of the GDP in 1987-88 (Siraj, 2010). It would require nothing short of a miracle for the Pakistani government to achieve such an unrealistic target.

Out of the total Rs. 34.5 billion allocated, Rs. 3.1 Billion is for primary education, Rs. 4.2 Billion for secondary education and Rs. 25.2 Billion for post-secondary education (Ministry of Finance, 2010). Considering that Pakistan is a developing country with a high proportion of illiterate people, the priorities of the government are misaligned. Primary school enrolment rates for both males and females are over 70 percent across Pakistan (UNICEF, 2010). However, secondary enrolment rates for both males and females are around 30 percent (UNICEF, 2010). Given this scenario, it is only rational to assume that government should first focus on ensuring universal enrolment in both primary and secondary schools. Post-secondary education is important but the pool of students is much smaller and most students will not ever reach that level if they do not graduate from high school.

The education expenditure does not have any funds specifically allocated for establishing new vocational and technical training institutes. Vocational training institutes are especially useful to the urban poor since they can acquire various skills by taking their short courses. Public sector technical training institutes are the only ones that are even affordable to the urban poor. Considering the rapidly changing nature of both the industry and the economy, laborers are required to update their skills on a regular basis to retain their job. Under such circumstances, it is all the more important that the government invests in vocational training institutes.

The biggest surprise of the education budget is the subsidy provided to poor families. Only Rs. 35 Million have been apportioned for subsidizing education which is about

0.001% of the budget (Ministry of Finance, 2010). Such an appropriation can hardly promise free education to a city, let alone the entire country with a population of 170 million. Public education is cheap but not entirely free across Pakistan. However, the costs of acquiring education have been steadily increasing even in the public sector. Ideally, both primary and secondary education should be available for free to the masses in public schools. But considering the budget constraints, government should still provide a significant subsidy to ensure that schooling costs remain extremely low. Poor families with their immense financial constraints always have a trade-off between sending their child to school or putting them to work. If schooling costs are high, then it creates a disincentive for poor families to send their children to school.

Pakistan happens to have the lowest literacy rate along with the smallest education budget in South Asia (Khalid, 2009). At a time, when countries like India, Bangladesh and Sri Lanka are making progress due to their investment in education, Pakistani government continues to focus solely on non-development related expenditures. In the status-quo, not only is there a dearth of schools but the existing ones are in a dilapidated condition with a poor quality of education being imparted. A sincere commitment to the development of the education sector is needed by both the national and provincial governments. Human capital development is essential for the success of any poverty alleviation programs.

FOOD SUBSIDIES

Urban poor families across Pakistan spend almost half their income on food items. Unlike the rural poor, they do not have the luxury to grow their own crops to feed themselves. Since food consumption is such a significant portion of their total expenditure, any food inflation has a detrimental effect on their welfare. The world food crisis in 2008 sent

shockwaves throughout the Pakistani economy as well as food inflation reached double-digits (World Bank, 2011). Food prices are on the rise across the world with the price of staple commodities such as maize and wheat increasing over 50 percent from 2010 to 2011 (World Bank, 2011). It is expected that the food prices are continue to increase in the next couple of years partly due to increasing fuel prices (World Bank, 2011).

Pakistani government has to take steps to ensure price stability in the domestic market otherwise more families are at risk of going below the poverty line. Food subsidies have been significantly reduced and in some cases even completely eliminated due to the Structural Adjustment Programs. Food subsidies can be an effective way to help mitigate the costs for the poor. However, food subsidies need to be specifically targeted towards the poor. An example of a targeted food subsidy program can be the Targeted Public Distribution System in India. Target Public Distribution System issues ration cards to both families living below the poverty line and above the poverty line (Saha, Mohan, & Daga, 2010). Ration card issued to families living below the poverty line enabled them to purchase food items at subsidized rates (Saha, Mohan, & Daga, 2010). While the ration card issued to families above the poverty line enabled them to buy the goods at economic cost (Saha, Mohan, & Daga, 2010). Indian government has been fairly successful with this food subsidy program in not only reaching out to poor families but in reducing their large food subsidy bill. Punjab government (in Pakistan) is thought to be considering such a rationing program that will allow poor families to get food items at subsidized rates (Gilani, 2010).

Over the years, various Pakistani governments have launched food subsidy programs with limited success. Food subsidy programs in Pakistan have been marred with corruption, coercion and severe shortages (Gilani, 2010). It is important that the food subsidy program is specifically targeted towards urban poor in cities so that it can reduce

their living costs. Since June 2010, it is estimated that food prices have moved 44 million people below the \$1.25 poverty line across the world (World Bank, 2011). Such inflationary pressures on food prices make it necessary for Pakistani government to launch a targeted food subsidy program.

CONCLUDING THOUGHTS

In about two decades by the year 2030, the total population living in both urban and rural areas would be equal in Pakistan. Similar to most developing countries, most of the poor population in Pakistan currently resides in rural areas. But that is going to change in the future as new cities are established and existing cities grow even more. The post-2008 period has been particularly harsh on poor families with the sharp increase in world food prices coupled with high unemployment rates due to the economic recession. It is important that the government of Pakistan realizes this spatial shift in the nature of poverty across the country and implements targeted poverty alleviation programs in cities.

Rapid urban growth does promise to bring development of new industry and infrastructure. At the same time, if not managed properly, it can also lead to a significant increase in urban poverty that will overshadow all development efforts. Strengthening of the local government and community involvement are perhaps the two most important steps that Pakistan currently needs. The purpose of this report was not to suggest that Pakistan or other developing countries should stop urbanizing. Instead it was to analyze how countries like Pakistan could better manage urbanization to ensure that urban poverty is reduced.

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Vita

Syed Hashim Zaidi grew up in Pakistan. After receiving his B.S. in Economics from Lahore University of Management Sciences, he worked as a business analyst on an enterprise development project with the Ministry of Finance in Pakistan. Hashim joined the LBJ School of Public Affairs at the University of Texas-Austin in the fall of 2009. In the past, Hashim has also worked as a debating coach, research assistant and a consultant.

Permanent email: syedhashimzaidi@gmail.com

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